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State budget woes: Similar problems, dramatically different solutions

In the depths of the Great Depression, the Mississippi Legislature of 1932 was faced with the problem of how to balance the state budget, as the previous year's appropriations had grown to approximately \$30 million and current year income was down to slightly more than \$20 million.

Lawmakers then decided on a two-pronged approach: Reduce spending and raise new revenue. Imagine that. A 2 percent sales tax was enacted, going into effect on June 1, 1932. The first revenue from this new source reached the Treasury during the month of July 1932 and over the next 12 months, the new sales tax produced a bit more than \$2.2 million, pretty much as projected.

But along with raising revenue, that Legislature also drastically reduced spending. The 1930-31 budget of \$29.9 million was reduced in 1932-33 to \$21 million, or by about 42 percent. The single largest decrease came in education spending.

Seventy-eight years ago, as now, education was the largest single component of the state budget, and consequently took the largest budget hit when times were toughest. Ultimately in the 1932-33 budget, there were reductions in 20 of the state's 23 budget categories, and the budget was balanced with just \$178,461.18 to spare.

It's more complicated now.

On Tuesday, the Legislature opens its 2010 session, with all eyes on the budget process for Fiscal Year 2011, which begins on July 1, 2010. There are similarities with 1932, such as a troubled economy, high unemployment, and revenue shortfalls. But, today, the situation is different, too, and one of the major differences is that about \$370 million of one-time federal stimulus money has artificially propped up some state agencies.

That stimulus money is a two-edged sword, helping us fill some large budget holes but leaving even larger holes – particularly in education and healthcare – when the one-time money is gone, as most of it will be by the middle of FY 2011. As Governor, I've already cut \$224 million from the FY 2010 budget – with the likely need to cut another \$160 million – and proposed an FY 2011 budget with specific ways to deal with a projected \$715 million shortfall.

Mississippi's fiscal state is as serious now as it was in the Depression years, and fixing the problems can't be business as usual. This is a time for creative, long-term thinking, and I have been pleased with the discussions I've had with key members of the Legislature over what needs to be done. The time is quickly coming when we must stop

talking and start acting, as one thing has hasn't changed since 1932 is the requirement that our budget be balanced.

With revenue unlikely to rebound significantly, and with the loss of the federal stimulus money, we have significantly less revenue than in years past, which creates a structural deficit that leaves us no choice but to further reduce spending or raise new revenue. Toward this end, I have proposed a reduction of about 12 percent for most state agencies below FY 2010 appropriations, with some exceptions for line items we are not legally allowed to cut, as well as specific priority services.

One thing not in my executive budget recommendation is a tax increase because experience has shown that tax increases in a down economy tend to stifle economic development and job creation.

Under this dire scenario, my budget recommendation for FY 2011 relies heavily on six main principles:

The most urgent need in Mississippi is to create more and better jobs, so agencies that play a significant role in job creation efforts are protected to the greatest possible extent.

Raising taxes during an economic downturn slows recovery and puts an unfair burden on our taxpayers; plus, raising taxes is the enemy of controlling spending. At the same time, we cannot let tax cheats to deprive the state of revenue it is already owed, so I have proposed increasing the budget of the State Tax Commission so it can hire additional personnel to collect money the state is already owed.

Government's first function is to ensure the public's safety. While nearly all agencies must experience spending reductions, I have recommended that law enforcement take less of a cut so they can continue their vital mission of protecting Mississippians.

Education is our number one economic development issue and number one equality of life issue. But, we must identify significant cost savings that don't diminish educational opportunities for our children. Now is the time to reduce administrative costs and for local school districts to use their own "rainy day funds," just as the state is drawing down on its rainy day fund. Restructuring that will save money in 2012 and beyond must begin now. And, consolidation of school districts may very well be a way of holding the line on costs while actually enhancing educational opportunities for our children.

Across the board, we must find ways to streamline government by seeking efficiencies and savings, while allowing maximum flexibilities for agency heads to manage effectively.

And, finally, even though Medicaid is an entitlement program, it is imperative that this agency achieve real cost savings along with the rest of state government, and these reductions must be achieved without harming the quality of Medicaid services provided to eligible recipients.

Over the past few weeks, the message has been very clear: State revenue is in dire fiscal straights, the budget crisis is real and we cannot delay making tough, long-term budget decisions. Reaching a consensus in the 2011 process will be difficult and will require disciplined, thoughtful decision-making. Working together, we can accomplish the task.